

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

***Charter Township of Gaines***  
***Kent County, Michigan***  
**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITORS' REPORT**  
*Year ended December 31, 2004*

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## CONTENTS

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*Page*

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

i - vii

### **INDEPENDENT AUDITORS' REPORT**

### **BASIC FINANCIAL STATEMENTS**

#### Government-wide financial statements:

Statement of net assets	5
Statement of activities	6

#### Fund financial statements:

Balance sheet - governmental funds	7
Statement of revenues, expenditures, and changes in fund balances - governmental funds	8 - 9
Statement of net assets - proprietary funds	10
Statement of revenues, expenses, and changes in fund net assets - proprietary funds	11
Statement of cash flows - proprietary funds	12 - 13
Statement of fiduciary net assets - agency funds	14

Notes to financial statements	15 - 23
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### **REQUIRED SUPPLEMENTARY INFORMATION**

#### Budgetary comparison schedules:

General Fund	24
Township Improvement Revolving Fund	25

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Charter Township of Gaines**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Our discussion and analysis of the Charter Township of Gaines' (the Township) financial performance provides a narrative overview of the Township's financial activities for the fiscal year ended December 31, 2004. Please read it in conjunction with the Township's financial statements.

**FINANCIAL HIGHLIGHTS**

- The Township's total net assets increased by \$4,603,309 (7 percent) as a result of this year's activities. Net assets of the governmental activities increased by \$650,318, and net assets of the business-type activities increased by \$3,952,991.
- Of the \$71,867,097 total net assets reported, \$10,038,556 (14 percent) is unrestricted, or available to be used at the Board's discretion.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$242,271, which represents 11 percent of the actual total General Fund expenditures for the current fiscal year.

**Overview of the financial statements**

The Township's basic financial statements are comprised of three parts: management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township, reporting the Township's operations in more detail than the government-wide financial statements.
  - Governmental fund statements tell how general government services, like public safety, were financed in the short-term, as well as what remains for future spending.
  - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business, such as the sewer and water systems.
  - Fiduciary fund statements provide information about the financial relationships in which the Township acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Because this is the first year of this reporting format, a comparative analysis of the basic financial statements was not practicable. Comparative analyses of the basic financial statements will be made in subsequent years.

**Charter Township of Gaines**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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**Government-wide financial statements**

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets (the difference between the Township's assets and liabilities) is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, you need to consider additional nonfinancial factors, such as changes in the Township's property tax base and the condition of the Township's capital assets.

The government-wide financial statements are divided into two categories:

- *Governmental activities* - Most of the Township's basic services are included here, such as fire and police protection and general government. State shared revenue and property taxes finance most of these activities.
- *Business-type activities* - The Township charges fees to customers to help it cover the costs of certain services it provides. The Township's sewer and water systems are reported here as well as its construction code inspection services.

**Fund financial statements**

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Township Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Township has three kinds of funds:

- *Governmental funds.* Most of the Township's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out and, (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship between them.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

- *Proprietary funds.* Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. In fact, the Township's enterprise funds are the same as its business-type activities but provide more detail and additional information, such as cash flows.
- *Fiduciary funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The Township's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

**FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE**

**Net assets.** Total net assets at the end of the fiscal year were \$71,867,097, an increase of 7 percent compared to the prior year. Of this total, \$61,769,297 is invested in capital assets and \$59,244 is restricted for various purposes. Consequently, unrestricted net assets were \$10,038,556, or 14 percent of the total.

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
Current assets	\$ 1,332,842	\$ 9,590,000	\$ 10,922,842
Noncurrent assets	<u>6,426,045</u>	<u>55,663,277</u>	<u>62,089,322</u>
<b>Total assets</b>	<b><u>7,758,887</u></b>	<b><u>65,253,277</u></b>	<b><u>73,012,164</u></b>
Current liabilities	<u>965,219</u>	<u>179,848</u>	<u>1,145,067</u>
Net assets:			
Invested in capital assets	6,426,045	55,343,252	61,769,297
Restricted	59,244	-	59,244
Unrestricted	<u>308,379</u>	<u>9,730,177</u>	<u>10,038,556</u>
<b>Total net assets</b>	<b><u>\$ 6,793,668</u></b>	<b><u>\$ 65,073,429</u></b>	<b><u>\$ 71,867,097</u></b>

**Changes in net assets.** The Township's total revenues are \$11,218,948. Nearly 32 percent come from charges for services, primarily from sewer and water services. Over 12 percent of the total revenues come from state shared revenue while only 5 percent come from property taxes.

**Charter Township of Gaines**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

The total cost of all the Township's programs, covering a wide range of services, totaled \$6,615,639. Almost 60 percent of the Township's costs relate to the provision of utility services. Public safety and general government each account for 15 percent of the Township's total costs.

	<u>Governmental activities</u>	<u>Percent</u>	<u>Business- type activities</u>	<u>Percent</u>	<u>Totals</u>	<u>Percent</u>
Revenues						
Program revenues:						
Charges for services	\$ 156,320	5%	\$ 3,388,576	42%	\$ 3,544,896	32%
State grants	7,691	0%	-	0%	7,691	0%
Capital contributions	-	0%	4,686,873	57%	4,686,873	41%
General revenues:						
Property taxes	542,965	18%	-	0%	542,965	5%
State grants	1,412,144	47%	-	0%	1,412,144	13%
Gain on sale of building	632,977	21%	-	0%	632,977	6%
Cable franchise fees	138,299	5%	-	0%	138,299	1%
Other	135,943	4%	117,160	1%	253,103	2%
<b>Total revenues</b>	<b><u>3,026,339</u></b>	<b>100%</b>	<b><u>8,192,609</u></b>	<b>100%</b>	<b><u>11,218,948</u></b>	<b>100%</b>
Expenses						
Public safety	986,592	42%	-	0%	986,592	15%
General government	969,526	41%	-	0%	969,526	15%
Public works	216,297	9%	-	0%	216,297	3%
Community development	164,537	7%	-	0%	164,537	2%
Culture and recreation	27,824	1%	-	0%	27,824	0%
Sewer	-	0%	2,142,575	51%	2,142,575	32%
Water	-	0%	1,797,070	42%	1,797,070	28%
Inspections	-	0%	299,973	7%	299,973	5%
Other	11,245	0%	-	0%	11,245	0%
<b>Total expenses</b>	<b><u>2,376,021</u></b>	<b>100%</b>	<b><u>4,239,618</u></b>	<b>100%</b>	<b><u>6,615,639</u></b>	<b>100%</b>
<b>Increase in net assets</b>	<b><u>\$ 650,318</u></b>		<b><u>\$ 3,952,991</u></b>		<b><u>\$ 4,603,309</u></b>	

**Governmental activities**

Governmental activities increased the Township's net assets by \$650,318. The key factor for this increase relates to the gain on the sale of the previous Township Hall in the amount of \$632,977.

The cost of all governmental activities this year was \$2,376,021. After subtracting the direct charges to those who directly benefited from the programs \$(156,320), and operating grants \$(7,691), the "public benefit" portion covered by taxes, state revenue sharing, and other general revenues was \$2,212,010.



**Charter Township of Gaines**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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**Business-type activities**

Business-type activities increased the Township's net assets by \$3,952,991. The increase was primarily the result of developer capital contributions in the amount of \$3,450,000.

**FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS**

**Governmental funds**

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$367,263, an increase of \$475,880 in comparison with the prior year. The increase occurred because of the proceeds received from the sale of the previous Township Hall, which amounted to \$632,977. Of the total fund balances, 84 percent constitutes unreserved fund balance, which is available for spending at the Board's discretion. The remainder of fund balance, in the amount of \$59,244, is reserved to indicate that it is not available for new spending because it is legally restricted for street lighting expenditures.

The General Fund is the chief operating fund of the Township. At the end of the fiscal year, unreserved fund balance was \$242,271, which represents 11 percent of the actual total General Fund expenditures for the current fiscal year. Total fund balance increased by \$156,881 during the fiscal year primarily due to efforts to control operating costs. All purchases were thoroughly reviewed for relevancy of need and total value represented.

The Township Improvement Revolving Fund experienced an increase in fund balance of \$277,560. The increase was created through the proceeds received from the sale of the building which were used to retire the debt issued to finance the construction of the current Township Hall.

**Proprietary funds**

The Sewer Fund experienced an operating loss of \$522,850. Net assets were \$38,035,286 at year end.

The Water Fund generated operating income of \$62,401. Net assets were \$26,658,580 at year end.

The Building Inspections Fund generated operating income of \$78,926. Net assets were \$379,563 at year end.

**General fund budgetary highlights**

It was unnecessary for the Board to amend the budgeted expenditures of the General Fund during the year as total actual expenditures were \$295,214 less than the amount originally budgeted. The most significant positive variance (\$124,589) was associated with the public safety portion of the budget. A large portion of this positive variance related to the contract for sheriff patrol. We were quoted numbers for three shifts as opposed to two and one-half shifts of sheriff patrol for which we normally contract. We budgeted the quoted numbers without realizing they were inaccurate. Ultimately, the expenditure for sheriff patrol reflected the actual cost of two and one-half shifts which left a balance in that department.

**Charter Township of Gaines**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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**Capital assets and debt administration**

*Capital assets*

The Township's investment in capital assets for its governmental and business-type activities as of December 31, 2004, amounts to \$61,769,297 (net of accumulated depreciation). This investment includes a broad range of assets, including buildings, fire equipment, and sewer and water facilities. The decrease in the Township's net investment in capital assets for the current fiscal year was \$516,798.

Major capital asset events during the current fiscal year included the following:

- Continued expansion of the sewer and water systems totaling \$3,582,866.
- Purchase of a chassis, in the amount of \$74,337, that will support a fire truck to be delivered in the following year.

More detailed information about the Township's capital assets is presented in Note 5 of the notes to the basic financial statements.

*Long-term debt*

At the end of the fiscal year, the Township had total long-term obligations outstanding in the amount of \$0 which represents a decrease of \$739,249.

During the year ended December 31, 2004, the Township paid off all of its long-term debt through the retirement of two separate obligations:

- The 2003 installment purchase agreement that financed a portion of the construction costs of the new Township Hall. The note was repaid with the proceeds from the sale of the previous Township Hall. The retirements in 2004 amounted to \$339,249.
- The 1989 water system general obligation bonds that were financed by taxes captured through the Local Development Finance Authority. The retirements in 2004 amounted to \$400,000.

More detailed information about the Township's long-term liabilities is presented in Note 6 of the notes to the basic financial statements.

**Economic condition and outlook**

I am pleased that we have been able to improve the Township's fund balance. While it is not as healthy as I believe it should be, we are moving in the right direction. Currently the unreserved fund balance represents 11 percent of actual total General Fund expenditures for the current fiscal year. It is not out of order to maintain a fund balance of approximately 25 percent of expenditures and I believe that we should continue to strive toward that goal. Operating on less than a mill for all General Fund activities, including public safety, makes it nearly impossible to set monies aside for the purchase of fire trucks and other related public safety services. Continued reduction in state revenue sharing plus the continued rise in the cost of Township services is making it very difficult to maintain a balanced budget while planning for the future financial health of the Township.

**Contacting the Township's financial management**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Donald Hilton, Township Supervisor  
Charter Township of Gaines  
8555 Kalamazoo Avenue, SE  
Caledonia, MI 49316

Phone: (616) 698-6640

## INDEPENDENT AUDITORS' REPORT

**Board of Trustees  
Charter Township of Gaines, Michigan**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Gaines, Michigan, as of December 31, 2004, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Gaines, Michigan, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 12, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of January 1, 2004.

**Board of Trustees  
Charter Township of Gaines, Michigan  
Page 2**

The management's discussion and analysis and budgetary comparison information on pages i through vii and 24 through 25, are not required parts of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Siegfried Crandall P.C.*

**April 15, 2005**

## **BASIC FINANCIAL STATEMENTS**

**Charter Township of Gaines**  
**STATEMENT OF NET ASSETS**  
December 31, 2004

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
<b>ASSETS</b>			
Current assets:			
Cash	\$ 640,623	\$ 4,620,273	\$ 5,260,896
Investments	51,570	3,845,076	3,896,646
Receivables, net	946,365	798,924	1,745,289
Prepays	20,011	-	20,011
Internal balances	<u>(325,727)</u>	<u>325,727</u>	<u>-</u>
Total current assets	<u>1,332,842</u>	<u>9,590,000</u>	<u>10,922,842</u>
Noncurrent assets:			
Receivables, net	-	320,025	320,025
Capital assets, net of accumulated depreciation	<u>6,426,045</u>	<u>55,343,252</u>	<u>61,769,297</u>
Total noncurrent assets	<u>6,426,045</u>	<u>55,663,277</u>	<u>62,089,322</u>
Total assets	<u>7,758,887</u>	<u>65,253,277</u>	<u>73,012,164</u>
<b>LIABILITIES</b>			
Current liabilities:			
Payables	205,474	179,848	385,322
Deferred revenue	<u>759,745</u>	<u>-</u>	<u>759,745</u>
Total current liabilities	<u>965,219</u>	<u>179,848</u>	<u>1,145,067</u>
<b>NET ASSETS</b>			
Invested in capital assets	6,426,045	55,343,252	61,769,297
Restricted for street lighting	59,244	-	59,244
Unrestricted	<u>308,379</u>	<u>9,730,177</u>	<u>10,038,556</u>
Total net assets	<u>\$ 6,793,668</u>	<u>\$ 65,073,429</u>	<u>\$ 71,867,097</u>

See notes to the financial statements

**Charter Township of Gaines**  
**STATEMENT OF ACTIVITIES**  
Year ended December 31, 2004

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>		
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
Governmental activities:				
Legislative	\$ 8,589	\$ -	\$ -	\$ -
General government	969,526	26,472	-	-
Public safety	986,592	-	-	-
Public works	216,297	108,276	7,691	-
Community and economic development	164,537	19,702	-	-
Culture and recreation	27,824	1,870	-	-
Interest on long-term debt	<u>2,656</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>2,376,021</u>	<u>156,320</u>	<u>7,691</u>	<u>-</u>
Business-type activities:				
Sewer	2,142,575	1,544,509	-	2,335,353
Water	1,797,070	1,465,168	-	2,351,520
Inspections	<u>299,973</u>	<u>378,899</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>4,239,618</u>	<u>3,388,576</u>	<u>-</u>	<u>4,686,873</u>
Totals	<u>\$ 6,615,639</u>	<u>\$ 3,544,896</u>	<u>\$ 7,691</u>	<u>\$ 4,686,873</u>

General revenues:

Property taxes  
State grants  
Interest income  
Cable franchise fees  
Other  
Special item - gain on sale of building

Total general revenues and special item

Change in net assets

Net assets - beginning

Net assets - ending



**Net (expense) revenue and changes in net assets**

<b><u>Governmental activities</u></b>	<b><u>Business-type activities</u></b>	<b><u>Totals</u></b>
\$ (8,589)		\$ (8,589)
(943,054)		(943,054)
(986,592)		(986,592)
(100,330)		(100,330)
(144,835)		(144,835)
(25,954)		(25,954)
<u>(2,656)</u>		<u>(2,656)</u>
 <u>(2,212,010)</u>		 <u>(2,212,010)</u>
	\$ 1,737,287	1,737,287
	2,019,618	2,019,618
	<u>78,926</u>	<u>78,926</u>
	 <u>3,835,831</u>	 <u>3,835,831</u>
 <u>(2,212,010)</u>	 <u>3,835,831</u>	 <u>1,623,821</u>
542,965	-	542,965
1,412,144	-	1,412,144
79,759	117,160	196,919
138,299	-	138,299
56,184	-	56,184
<u>632,977</u>	<u>-</u>	<u>632,977</u>
 <u>2,862,328</u>	 <u>117,160</u>	 <u>2,979,488</u>
650,318	3,952,991	4,603,309
<u>6,143,350</u>	<u>61,120,438</u>	<u>67,263,788</u>
 <u>\$ 6,793,668</u>	 <u>\$ 65,073,429</u>	 <u>\$ 71,867,097</u>

See notes to the financial statements

**Charter Township of Gaines**  
**BALANCE SHEET - governmental funds**  
December 31, 2004

	<u>Major funds</u>			
	<u>General</u>	<u>Township Improvement Revolving</u>	<u>Nonmajor fund Trails</u>	<u>Total governmental funds</u>
<b>ASSETS</b>				
Cash	\$ 596,736	\$ 2,448	\$ 41,439	\$ 640,623
Investments	49,360	2,210		51,570
Receivables, net	946,365	-	-	946,365
Prepays	-	20,011	-	20,011
Total assets	<u>\$ 1,592,461</u>	<u>\$ 24,669</u>	<u>\$ 41,439</u>	<u>\$ 1,658,569</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Payables	\$ 205,474	\$ -	\$ -	\$ 205,474
Deferred revenue	759,745	-	-	759,745
Advances from other funds	325,727	-	-	325,727
Total liabilities	<u>1,290,946</u>	<u>-</u>	<u>-</u>	<u>1,290,946</u>
Fund balances:				
Reserved for street lighting	59,244	-	-	59,244
Unreserved, undesignated	242,271	24,669	41,439	308,379
Total fund balances	<u>301,515</u>	<u>24,669</u>	<u>41,439</u>	<u>367,623</u>
Total liabilities and fund balances	<u>\$ 1,592,461</u>	<u>\$ 24,669</u>	<u>\$ 41,439</u>	

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds.

6,426,045

Net assets of *governmental activities* (page 5)

\$ 6,793,668

**Charter Township of Gaines**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES - governmental funds**  
Year ended December 31, 2004

	<b>Major funds</b>		<b>Nonmajor fund</b>	
	<b>General</b>	<b>Township Improvement Revolving</b>	<b>Trails</b>	<b>Totals</b>
<b>REVENUES</b>				
Taxes	\$ 542,965	\$ -	\$ -	\$ 542,965
State grants	1,419,835	-	-	1,419,835
Charges for services	190,385	-	-	190,385
Interest and rentals	78,869	825	65	79,759
Other:				
Special assessment - street lighting	104,234	-	-	104,234
Miscellaneous	14,810	-	41,374	56,184
Total revenues	<u>2,351,098</u>	<u>825</u>	<u>41,439</u>	<u>2,393,362</u>
<b>EXPENDITURES</b>				
Legislative	8,589	-	-	8,589
General government	809,361	-	-	809,361
Public safety	877,860	-	-	877,860
Public works	214,818	-	-	214,818
Community and economic development	161,688	-	-	161,688
Culture and recreation	27,824	-	-	27,824
Debt service:				
Principal	-	339,249	-	339,249
Interest	-	2,656	-	2,656
Capital outlay	34,077	74,337	-	108,414
Total expenditures	<u>2,134,217</u>	<u>416,242</u>	<u>-</u>	<u>2,550,459</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>216,881</u>	<u>(415,417)</u>	<u>41,439</u>	<u>(157,097)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in	-	60,000	-	60,000
Transfer out	(60,000)	-	-	(60,000)
Total other financing sources (uses)	<u>(60,000)</u>	<u>60,000</u>	<u>-</u>	<u>-</u>
<b>SPECIAL ITEM</b>				
Proceeds from sale of building	-	632,977	-	632,977
Net change in fund balances	156,881	277,560	41,439	475,880
<b>FUND BALANCES (DEFICIT) - BEGINNING</b>	<u>144,634</u>	<u>(252,891)</u>	<u>-</u>	<u>(108,257)</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 301,515</u>	<u>\$ 24,669</u>	<u>\$ 41,439</u>	<u>\$ 367,623</u>

See notes to the financial statements

**Charter Township of Gaines**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - governmental funds (Continued)**

Year ended December 31, 2004

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Reconciliation of the statement of revenues, expenditures, and changes in fund balances to the statement of activities.

Net change in fund balances - total governmental funds (page 8) \$ 475,880

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$280,748) exceeded capital outlay (\$115,937) in the current period. (164,811)

Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 339,249

Change in net assets of *governmental activities* (page 6) \$ 650,318

**Charter Township of Gaines**  
**STATEMENT OF NET ASSETS - proprietary funds**  
December 31, 2004

	<u>Sewer</u>	<u>Water</u>	<u>Building Inspections</u>	<u>Totals</u>
<b>ASSETS</b>				
Current assets:				
Cash	\$ 1,865,839	\$ 2,374,871	\$ 379,563	\$ 4,620,273
Investments	1,595,169	2,249,907	-	3,845,076
Receivables, net	437,039	361,885	-	798,924
Interfund balances	<u>180,423</u>	<u>145,304</u>	<u>-</u>	<u>325,727</u>
Total current assets	<u>4,078,470</u>	<u>5,131,967</u>	<u>379,563</u>	<u>9,590,000</u>
Noncurrent assets:				
Receivables, net	203,577	116,448	-	320,025
Capital assets, net of accumulated depreciation	<u>33,859,132</u>	<u>21,484,120</u>	<u>-</u>	<u>55,343,252</u>
Total noncurrent assets	<u>34,062,709</u>	<u>21,600,568</u>	<u>-</u>	<u>55,663,277</u>
Total assets	<u>38,141,179</u>	<u>26,732,535</u>	<u>379,563</u>	<u>65,253,277</u>
<b>LIABILITIES</b>				
Current liabilities:				
Payables	<u>105,893</u>	<u>73,955</u>	<u>-</u>	<u>179,848</u>
<b>NET ASSETS</b>				
Investment in capital assets	33,859,132	21,484,120	-	55,343,252
Unrestricted	<u>4,176,154</u>	<u>5,174,460</u>	<u>379,563</u>	<u>9,730,177</u>
Total net assets	<u>\$ 38,035,286</u>	<u>\$ 26,658,580</u>	<u>\$ 379,563</u>	<u>\$ 65,073,429</u>

See notes to the financial statements

**Charter Township of Gaines**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN**

**NET ASSETS - *proprietary funds***

*Year ended December 31, 2004*

	<u>Sewer</u>	<u>Water</u>	<u>Building Inspections</u>	<u>Totals</u>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 1,515,463	\$ 1,430,806	\$ 378,899	\$ 3,325,168
Other	29,046	34,362	-	63,408
Total operating revenues	<u>1,544,509</u>	<u>1,465,168</u>	<u>378,899</u>	<u>3,388,576</u>
<b>OPERATING EXPENSES</b>				
Personnel costs	61,438	61,438	214,182	337,058
Sewage treatment charges	1,039,287	-	-	1,039,287
Water charges	-	473,745	-	473,745
System operation and maintenance	123,255	322,429	-	445,684
Professional services	31,989	46,841	-	78,830
Miscellaneous	14,494	14,935	85,791	115,220
Depreciation	796,896	483,379	-	1,280,275
Total operating expenses	<u>2,067,359</u>	<u>1,402,767</u>	<u>299,973</u>	<u>3,770,099</u>
Operating income (loss)	<u>(522,850)</u>	<u>62,401</u>	<u>78,926</u>	<u>(381,523)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Capital contributions:				
Developers	1,770,000	1,680,000	-	3,450,000
Tax increment financing	-	197,169	-	197,169
Other unit and customers	248,082	207,360	-	455,442
Trunkage and availability fees	317,271	266,991	-	584,262
Interest revenue	36,083	48,679	-	84,762
Special assessment interest	19,611	12,787	-	32,398
Capital contributions - other units	(75,216)	(261,357)	-	(336,573)
Refund of capital contribution - Byron Township	-	(123,946)	-	(123,946)
Interest expense	-	(9,000)	-	(9,000)
Total nonoperating revenues (expenses)	<u>2,315,831</u>	<u>2,018,683</u>	<u>-</u>	<u>4,334,514</u>
<b>CHANGE IN NET ASSETS</b>	<u>1,792,981</u>	<u>2,081,084</u>	<u>78,926</u>	<u>3,952,991</u>
<b>NET ASSETS - BEGINNING</b>	<u>36,242,305</u>	<u>24,577,496</u>	<u>300,637</u>	<u>61,120,438</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 38,035,286</u>	<u>\$ 26,658,580</u>	<u>\$ 379,563</u>	<u>\$ 65,073,429</u>

*See notes to the financial statements*

**Charter Township of Gaines**  
**STATEMENT OF CASH FLOWS - proprietary funds**  
Year ended December 31, 2004

	<u>Sewer</u>	<u>Water</u>	<u>Building Inspections</u>	<u>Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 1,434,524	\$ 1,373,510	\$ 378,899	\$ 3,186,933
Payments to vendors and suppliers	(1,229,776)	(693,337)	(85,791)	(2,008,904)
Payments to employees	(61,438)	(61,438)	(214,182)	(337,058)
Net cash provided by operating activities	<u>143,310</u>	<u>618,735</u>	<u>78,926</u>	<u>840,971</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Change in interfund balances	<u>3,902</u>	<u>-</u>	<u>-</u>	<u>3,902</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Collections of assessments receivable	239,491	72,156	-	311,647
Special assessment interest	19,611	12,787	-	32,398
Trunkage and availability fees	317,271	266,991	-	584,262
Capital contributions	-	337,909	-	337,909
Capital contributions paid to other governments	(75,216)	(261,357)	-	(336,573)
Refund of capital contributions from governments	-	(123,946)	-	(123,946)
Acquisition of capital assets	(49,628)	(83,238)	-	(132,866)
Principal payments on long-term debt	-	(400,000)	-	(400,000)
Interest payments on long-term debt	-	(13,500)	-	(13,500)
Net cash provided by (used in) capital and related financing activities	<u>451,529</u>	<u>(192,198)</u>	<u>-</u>	<u>259,331</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net change in investments	(22,858)	(244,076)	-	(266,934)
Interest received	<u>36,083</u>	<u>48,679</u>	<u>-</u>	<u>84,762</u>
Net cash provided by investing activities	<u>13,225</u>	<u>(195,397)</u>	<u>-</u>	<u>(182,172)</u>
<b>NET INCREASE IN CASH</b>	<u>611,966</u>	<u>231,140</u>	<u>78,926</u>	<u>922,032</u>
<b>CASH - BEGINNING</b>	<u>1,253,873</u>	<u>2,143,731</u>	<u>300,637</u>	<u>3,698,241</u>
<b>CASH - ENDING</b>	<u>\$ 1,865,839</u>	<u>\$ 2,374,871</u>	<u>\$ 379,563</u>	<u>\$ 4,620,273</u>

See notes to the financial statements

**Charter Township of Gaines**

**STATEMENT OF CASH FLOWS - proprietary funds (Continued)**

Year ended December 31, 2004

	<u>Sewer</u>	<u>Water</u>	<u>Building Inspections</u>	<u>Totals</u>
<b>Noncash capital and related financing activities:</b>				
Acquisition of capital assets	\$ (1,819,628)	\$ (1,763,238)	\$ -	\$ (3,582,866)
Less capital assets contributed by developers	<u>1,770,000</u>	<u>1,680,000</u>	<u>-</u>	<u>3,450,000</u>
Net cash used	<u>\$ (49,628)</u>	<u>\$ (83,238)</u>	<u>\$ -</u>	<u>\$ (132,866)</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	\$ (522,850)	\$ 62,401	\$ 78,926	\$ (381,523)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	796,896	483,379	-	1,280,275
(Increase) decrease in:				
Receivables, net	(109,985)	89,705	-	(20,280)
Increase (decrease) in:				
Payables	<u>(20,751)</u>	<u>(16,750)</u>	<u>-</u>	<u>(37,501)</u>
Net cash provided by operating activities	<u>\$ 143,310</u>	<u>\$ 618,735</u>	<u>\$ 78,926</u>	<u>\$ 840,971</u>

See notes to the financial statements



**Charter Township of Gaines**  
**STATEMENT OF FIDUCIARY NET ASSETS - agency funds**  
*December 31, 2004*

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**ASSETS**

Cash	\$ 2,291,789
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**LIABILITIES**

Payables	\$ 84,475
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Due to other governmental units	<u>2,207,314</u>
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Total liabilities	<u>\$ 2,291,789</u>
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*See notes to the financial statements*

**Charter Township of Gaines**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Township of Gaines, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

*a) Reporting entity:*

The accompanying financial statements present only the Township. There are no component units, entities for which the Township is considered to be financially accountable.

*b) Government-wide and fund financial statements:*

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the Township. The effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

*c) Measurement focus, basis of accounting, and financial statement presentation:*

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**Charter Township of Gaines**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*c) Measurement focus, basis of accounting, and financial statement presentation (continued):*

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

The Township reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Township Improvement Revolving Fund accounts for Township improvements financed through transfers from the General Fund.

The Township reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the Township's sewage collection systems.

The Water Fund accounts for the activities of the Township's water distribution system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector standards.

The Township reports two fiduciary funds, the Agency Fund and the Tax Collection Fund, which account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Charter Township of Gaines**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**d) Assets, liabilities, and net assets or equity:**

i) *Bank deposits* - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

ii) *Receivables* - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

iii) *Prepaid items* - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

iv) *Capital assets* - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning January 1, 2004.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 - 60 years
Equipment	3 - 5 years
Vehicles	3 - 5 years
Sewer and water systems	50 years

v) *Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vi) *Property tax revenue recognition* - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, taxes have been deferred from recognition as revenue until the following year.

**Charter Township of Gaines**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

*Budgetary information* - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year. The Township had no significant budget variations.

**NOTE 3 - CASH AND INVESTMENTS:**

The Township's cash and investments are as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Fiduciary</u>	<u>Totals</u>
Cash	\$ 640,623	\$ 4,620,273	\$ 2,291,789	\$ 7,552,685
Investments	<u>51,570</u>	<u>3,845,076</u>	<u>-</u>	<u>3,896,646</u>
	<u>\$ 692,193</u>	<u>\$ 8,465,349</u>	<u>\$ 2,291,789</u>	<u>\$ 11,449,331</u>

Deposits are carried at cost and are maintained at various financial institutions in the name of the Township. State statutes and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority. At December 31, 2004, the Township has deposits with a carrying amount of \$7,552,685 and a bank balance of \$8,059,138. Of the bank balance, \$400,000 is covered by federal depository insurance and \$7,659,138 is uninsured.

*Investments:*

State statutes authorize the Township to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper, with three (3) highest rate classifications by at least two (2) rating services, maturing not later than 270 days; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; e) mutual funds; and f) investment pools organized under the local government investment pool act. Not more than 50% of any mutual fund may be invested in commercial paper. The Township's investments consist of holdings in the Kent County Investment Pool, which are nonrisk-categorized qualifying investments, and are carried at cost, which approximates fair market value.

**Charter Township of Gaines**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 4 - RECEIVABLES:**

Receivables as of year-end for the government's individual major funds are as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Property taxes</u>	<u>Special assessments</u>	<u>Totals</u>
Governmental activities:				
General Fund	<u>\$ 744,026</u>	<u>\$ 454,028</u>	<u>\$ -</u>	<u>\$ 1,198,054</u>
Business-type activities:				
Sewer Fund	<u>\$ 376,568</u>	<u>\$ -</u>	<u>\$ 264,048</u>	<u>\$ 640,616</u>
Water Fund	<u>336,001</u>	<u>-</u>	<u>142,333</u>	<u>478,334</u>
Total business-type activities	<u>\$ 712,569</u>	<u>\$ -</u>	<u>\$ 406,381</u>	<u>\$ 1,118,950</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 320,025</u>	<u>\$ 320,025</u>

All receivables are considered fully collectible.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year deferred revenue represents taxes levied December 1, 2004 that will finance expenditures of the following year. The deferral consists of taxes receivable, in the amount of \$454,028, and cash received, in the amount of \$305,717.

**Charter Township of Gaines**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 5 - CAPITAL ASSETS:**

Capital asset activity for the year ended December 31, 2004, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$ 5,231,816	\$ 2,755	\$ -	\$ 5,234,571
Equipment and vehicles	<u>2,265,894</u>	<u>113,182</u>	<u>-</u>	<u>2,379,076</u>
Total capital assets being depreciated	<u>7,497,710</u>	<u>115,937</u>	<u>-</u>	<u>7,613,647</u>
Less accumulated depreciation:				
Buildings	182,926	134,993	-	317,919
Equipment and vehicles	<u>723,928</u>	<u>145,755</u>	<u>-</u>	<u>869,683</u>
Total accumulated depreciation	<u>906,854</u>	<u>280,748</u>	<u>-</u>	<u>1,187,602</u>
Governmental activities capital assets, net	<u>\$ 6,590,856</u>	<u>\$ (164,811)</u>	<u>\$ -</u>	<u>\$ 6,426,045</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 308,486	\$ -	\$ -	\$ 308,486
Construction in progress	<u>948,320</u>	<u>12,002</u>	<u>957,770</u>	<u>2,552</u>
Total capital assets not being depreciated	<u>1,256,806</u>	<u>12,002</u>	<u>957,770</u>	<u>311,038</u>
Capital assets being depreciated:				
Sewer system	39,614,322	2,765,978	-	42,380,300
Water system	23,981,458	1,800,151	-	25,781,609
Office equipment	<u>39,426</u>	<u>-</u>	<u>-</u>	<u>39,426</u>
Total capital assets being depreciated	<u>63,635,206</u>	<u>4,566,129</u>	<u>-</u>	<u>68,201,335</u>
Less accumulated depreciation:				
Sewer system	7,880,835	796,896	-	8,677,731
Water system	3,969,286	483,379	-	4,452,665
Office equipment	<u>38,725</u>	<u>-</u>	<u>-</u>	<u>38,725</u>
Total accumulated depreciation	<u>11,888,846</u>	<u>1,280,275</u>	<u>-</u>	<u>13,169,121</u>
Business-type activities capital assets, net	<u>\$ 53,003,166</u>	<u>\$ 3,297,856</u>	<u>\$ 957,770</u>	<u>\$ 55,343,252</u>

**Charter Township of Gaines**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 5 - CAPITAL ASSETS (Continued):**

Depreciation expense was charged to functions of the Township as follows:

Governmental activities:	
General government	\$ 160,165
Public safety	116,255
Public works	1,479
Community and economic development	<u>2,849</u>
Total governmental activities	<u>\$ 280,748</u>

**NOTE 6 - NONCURRENT LIABILITIES:**

A summary of long-term debt transactions as of December 31, 2004, of the Township is as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
Balance - January 1, 2004	\$ 339,249	\$ 400,000	\$ 739,249
Issuance	-	-	-
Retirements	<u>(339,249)</u>	<u>(400,000)</u>	<u>(739,249)</u>
Balance - December 31, 2004	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 7 - PAYABLES:**

Payables as of year-end for the Township's individual major funds are as follows:

	<u>Accounts</u>	<u>Payroll</u>	<u>Totals</u>
Governmental activities:			
General	<u>\$ 193,348</u>	<u>\$ 12,126</u>	<u>\$ 205,474</u>
Business-type activities:			
Sewer	\$ 105,893	-	\$ 105,893
Water	<u>73,955</u>	<u>-</u>	<u>73,955</u>
Total business-type activities	<u>\$ 179,848</u>	<u>-</u>	<u>\$ 179,848</u>



**Charter Township of Gaines**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 8 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:**

At December 31, 2004, the composition of interfund balances is as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
Sewer	\$ 180,423	General	\$ 325,727
Water	<u>145,304</u>		
Totals	<u>\$ 325,727</u>		

The amounts payable to the Sewer and Water funds represent advances used to finance the cost of land acquisition and sewer connection fees. The balances are not scheduled to be collected in the subsequent year.

The interfund transfer for the year ended December 31, 2004, is as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
Township Improvement Revolving	\$ 60,000	General	\$ 60,000

This transfer moved unrestricted revenues, collected in the General Fund, to the Township's Improvement Revolving Fund to finance capital acquisitions in accordance with budgetary authorizations.

**NOTE 9 - RISK MANAGEMENT:**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for each of these claims and is neither self-insured nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Charter Township of Gaines**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 10 - DEFINED CONTRIBUTION PENSION PLANS:**

The Township maintains two separate defined contribution pension plans. The first plan covers all full time employees (over 20 hours per week) and Township Trustees. The Township contributes 10% of covered payroll to this plan on behalf of qualifying employees. All costs associated with the plan are paid or accrued currently. Township contributions for the year ended December 31, 2004, totaled \$69,083.

The second Township pension plan covers volunteer firemen and planning commission and zoning board members. The Township contributes 3.75% of covered payroll to this plan on behalf of qualifying employees, with an equal percentage contributed by all covered employees. Township contributions for the year ended December 31, 2004, totaled \$14,860.

The Township is not a trustee of these plans, nor is the Township responsible for investment management of plan assets.

**NOTE 11 - JOINT VENTURE:**

*Byron-Gaines Utility Authority:*

The Township is a member of the Byron-Gaines Utility Authority, which is a joint venture of the Townships of Byron and Gaines. The administrative board of the Authority consists of members appointed by each participating unit. The Authority was formed to jointly provide water and sewer services within the combined service area, which encompasses the participating municipalities. During the year ended December 31, 2004, the Township contributed \$336,573 as its proportionate share of the Authority's construction costs and other administrative expenses.

**NOTE 12 - CHANGE IN ACCOUNTING PRINCIPLES:**

Effective January 1, 2004, the Township implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, along with all related statements and interpretations. In connection with the implementation of this statement, the following adjustments to beginning net assets have been made to reflect the cumulative effect of this accounting change:

Net assets (deficit) as previously reported	
General and special revenue funds	\$ (108,257)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,590,856
Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(339,249)</u>
Net assets, as restated	<u>\$ 6,143,350</u>

## REQUIRED SUPPLEMENTARY INFORMATION

**Charter Township of Gaines**  
**BUDGETARY COMPARISON SCHEDULE - General Fund**  
Year ended December 31, 2004

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ 564,500	\$ 564,500	\$ 542,965	\$ (21,535)
State grants	1,545,000	1,545,000	1,419,835	(125,165)
Charges for services	115,550	115,550	190,385	74,835
Interest and rentals	61,863	61,863	78,869	17,006
Other:				
Street lighting assessment	103,385	103,385	104,234	849
Miscellaneous	17,450	17,450	14,810	(2,640)
Total revenues	<u>2,407,748</u>	<u>2,407,748</u>	<u>2,351,098</u>	<u>(56,650)</u>
<b>EXPENDITURES</b>				
Legislative	10,515	10,515	8,589	1,926
General government	877,876	877,876	809,361	68,515
Public safety	1,002,449	1,002,449	877,860	124,589
Public works	240,225	240,225	214,818	25,407
Community and economic development	213,586	213,586	161,688	51,898
Culture and recreation	42,006	42,006	27,824	14,182
Capital outlay	42,774	42,774	34,077	8,697
Total expenditures	<u>2,429,431</u>	<u>2,429,431</u>	<u>2,134,217</u>	<u>295,214</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(21,683)	(21,683)	216,881	238,564
<b>OTHER FINANCING USES</b>				
Transfer out - Township Improvement Revolving Fund	<u>-</u>	<u>(60,000)</u>	<u>(60,000)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	(21,683)	(81,683)	156,881	238,564
<b>FUND BALANCES - BEGINNING</b>	<u>144,634</u>	<u>144,634</u>	<u>144,634</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 122,951</u>	<u>\$ 62,951</u>	<u>\$ 301,515</u>	<u>\$ 238,564</u>

**Charter Township of Gaines**

**BUDGETARY COMPARISON SCHEDULE - Township Improvement Revolving Fund**

Year ended December 31, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>				
Interest	\$ -	\$ -	\$ 825	\$ 825
<b>EXPENDITURES</b>				
Capital outlay	75,000	75,000	74,337	663
Debt service:				
Principal	340,000	340,000	339,249	751
Interest	<u>3,000</u>	<u>3,000</u>	<u>2,656</u>	<u>344</u>
Total expenditures	<u>418,000</u>	<u>418,000</u>	<u>416,242</u>	<u>1,758</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	(418,000)	(418,000)	(415,417)	2,583
<b>OTHER FINANCING SOURCES</b>				
Transfer in - General Fund	-	60,000	60,000	-
<b>SPECIAL ITEM</b>				
Proceeds from sale of building	<u>685,000</u>	<u>685,000</u>	<u>632,977</u>	<u>(52,023)</u>
<b>NET CHANGE IN FUND BALANCES</b>	267,000	327,000	277,560	(49,440)
<b>FUND BALANCES (DEFICITS) - BEGINNING</b>	<u>(252,891)</u>	<u>(252,891)</u>	<u>(252,891)</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 14,109</u>	<u>\$ 74,109</u>	<u>\$ 24,669</u>	<u>\$ (49,440)</u>